Nova Scotia Department of Finance

Business Plan
2005-2006

NOVA SCOTIA
Department of Finance

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Message from the Minister

I am pleased to present the 2005-2006 business plan for the Department of Finance.

The Department of Finance plays a key role in implementing the Government of Nova Scotia's commitment to sound financial management.

Finance oversees the province's fiscal plan, which provides resources to address the needs of Nova Scotians today and make strategic investments for tomorrow. Good work done in this department has helped produce budget surpluses in each of the last few years.

The Finance department also plays a leadership role in financial management across government. This year, we will improve control and risk management systems in the department, implement a new audit framework for government and enhance financial reporting methods.

On the revenue side, we will continue to press for an equitable and adequate share of federal-provincial funding for Nova Scotia, and we will review Nova Scotia tax initiatives to determine the financial implications to the Nova Scotia economy.

The department will also place an enhanced focus on career development and wellness for staff, who represent our most fundamental resource.

I am pleased to see the department move forward with these initiatives. I know they will help us continue to make a significant difference in the lives of Nova Scotians.

The Honourable Peter G. Christie
Minister of Finance

Vicki Harnish
Deputy Minister of Finance

Mission Statement

Establish a fiscal climate conducive to economic growth and provide central agency support and policy direction for effective management of the province's finances.

Planning Context

The department plays a key role in realising the vision of government - a healthy, prosperous and self-sufficient Nova Scotia - by working to implement a sustainable fiscal plan and uninterrupted balanced budgets for the province. The current challenge is not just to manage the funding requests for health and social programs and/or infrastructure enhancements, but also to address the requirement that sufficient surplus funds be made available to start to pay down the debt. Managing the fiscal plan so that we can enjoy a sound financial position today means future generations will not bear an undue burden - a good example of responsible government.

The province follows Generally Accepted Accounting Principles (GAAP) that are based primarily on the recommendations of the Public Sector Accounting Board (PSAB). This is a challenging process that requires ongoing adjustments to procedures and reporting documents to incorporate changes to PSAB policies, but ultimately results in a more open and transparent accounting system. In the coming year, we will be implementing new PSAB standards and improving disclosures in reporting so that stakeholders will better understand the accounting principles we follow and the implications of decisions that are implemented.

A special focus of the department in the coming year is to improve our governance and internal control systems, and we will be revising policies and procedures to promote clarity, consistency and accountability. Managing risk is never without its challenges and risk management strategies will continue over the long-term. The Deloitte audit (fall, 2004) recommended a number of changes to governance, management controls and policies/procedures related to debt management and pension investments that will ensure the department is employing industry standards and practices.

As always, many of the challenges the department faces require interdepartmental and intergovernmental collaboration and participation. Staying focussed on ensuring effective interactions/collaborations with our federal and provincial counterparts has demonstrated important payoffs in the form of offshore revenues and equalisation agreements, and we will continue to fine tune relations and stay abreast of issues and initiatives on the federal/provincial front.

Along the way, we must make every effort to keep stakeholders, which include the investment community and the general public, informed with timely and reliable information about financial issues affecting Nova Scotia. Internal communication will be enhanced, as well, and we will be

continuing to revise and improve our website to provide up-to-date information about the department's activities and the province's finances.

The department is comprised of experienced professionals in the fields of financial analysis and accountability, federal/provincial/territorial fiscal agreements, investments and cash management, pension administration, financial information systems and products, economic analysis and statistics, taxation and policy. Yet, given the number of retirements that are scheduled to take place in coming years, staffing/recruitment has become one of the biggest challenges all departments face. The department must work to ensure its staff receives ongoing training and development while recruiting highly skilled and motivated people, in order to meet current needs and to address the needs of the future. Since the results of the PSC Survey were released (summer, 2004), the department has taken a series of meaningful steps to respond to the needs expressed by staff and management. Various recommendations that have been generated from a follow-up survey and focus group research will be addressed in the coming months, including: enhancements to the Occupational Health (Wellness) and Safety (OH&S) Committee, improvements to safety and security, better internal communication and various initiatives to improve the quality of work. In addition, we will be enhancing our Human Resource strategies to address succession planning needs and considering new approaches to training/cross training staff.

Core Business Areas

The department's core business areas directly support the priorities of government as reflected in the Blueprint (2003) and its Corporate Plan. Many activities within the core business areas reinforce these linkages; for example, economic development is enhanced with a healthy fiscal plan and through effective taxation policies. Similarly, the development of accountability mechanisms in legislation and regulations directly supports government's priorities.

Financial Management

This core business centres around ensuring financial accountability in the management and control of the province's finances, which includes:

- financial accountability and governance
- expenditure monitoring and reporting (shared with Treasury & Policy Board)
- accounting, payroll and pension administration

Investment and Treasury Management

This involves the processes, policies and procedures that ensure effective money management, maximising return on investments and minimising debt servicing costs within risk tolerances acceptable to government. Specific business activities include:

- managing the debt portfolio and sinking funds

- treasury function and investor relations
- managing the provincial pension funds

Fiscal Planning and Policy
Specific activities include:
- fiscal planning and budgeting (shared with Treasury and Policy Board)
- revenue and economic forecasting and analysis
- tax policy analysis/advisory services and federal fiscal policies and arrangements

Central Agency Services
This business area consists of a core set of services that support the management of the province's programs and public resources, in addition to supporting the core business functions of the Department of Finance. They are:

- Corporate Information Systems (CIS): providing ongoing support for the SAP systems within provincial departments and agencies, school boards, regional housing authorities and six municipalities

- Economics and Statistics: A continuum of services - from descriptive statistics, to in-depth impact, cost-benefit and economic policy analyses - that will better inform policy development, program planning and decision-making. A related project, Community Counts (CC), is a statistical infrastructure comprised of a wide range of census, taxation and administrative data sets that will support evidence-based decision-making and program planning.

- Internal Audit: performing value-added audit and consulting services to client departments and agencies for effectiveness of control structures and cost-effective usage of public funds. This function will be undergoing change in the coming year to provide a more comprehensive, corporate approach.

The department also hosts the Corporate Services Unit (CSU) that supplies financial services to the Departments of Finance, Service Nova Scotia and Municipal Relations, Tourism, Culture and Heritage, and the Office of Economic Development (OED). Human Resources are provided through the Transportation and Public Works CSU and Information Technology resources are hosted by the CSU at the Department of Natural Resources. Communications staff are assigned to the department by Communications Nova Scotia, and legal expertise is provided through the Department of Justice. Finally, the department is continuing to grow its Policy and Planning function to manage information and planning, to encourage collaboration among the department's divisions and across government and to provide a strategic approach to policy initiatives and challenges.

Strategic Goals

The strategic goals of the Department of Finance reflect the achievements that are key to fulfilling our mission. At the same time, they support the corporate priorities of government, most directly in terms of "building greater prosperity" and promoting "fiscal responsibility and accountability."

1. Develop fiscal and economic strategies to help government realise its fiscal, social and economic development objectives.

2. Create understandable and informative reporting on financial results while applying Public Sector Accounting Board (PSAB) recommendations.

3. Develop the province's position and strategy to promote an equitable and adequate share of resources relative to federal/provincial funding arrangements.

4. Continue to enhance the department's strategic focus, concentrating initially on effective risk management and workforce strategies (development of our people).

Priorities for 2005-2006

Following is a list of strategic priorities for FY2005-2006 grouped under the relevant Strategic Goal.

Strategic Goal No. 1: Develop fiscal and economic strategies to help government realise its fiscal, social and economic development objectives.

1. Lead the development of a fiscal plan that includes a balanced budget for 2005-2006 and adequate surplus funds to fulfill the requirements of the provincial debt retirement plan, and, in partnership with Treasury and Policy Board (TPB), monitor, report and advise on the ongoing implementation of the fiscal plan.

2. Finalise the implementation of e-Merge, the human resource and payroll modules of the SAP enterprise resource planning system within government departments and agencies, and manage the transition from HRMS payroll system to the SAP-HR module in order to effectively generate payroll for all government employees, school board employees and pensioners. In collaboration with the Office of Economic Development and SNSMR, continue to implement the SAP Utilities and Tax Module (CCS) in the Municipal Sector, and in collaboration with the Office of Economic Development and the Department of Health, review options for financial and human resource management information systems in District Health Authorities (DHAs).

3. Review the province's system of taxation and overall level of tax burden with a view to ensuring efficiency, promoting competitiveness and responding to the social needs of Nova Scotians within the fiscal resources available.

Strategic Goal No. 2 *Create understandable and informative reporting on financial results while applying PSAB recommendations.*

4. Support compliance with Generally Accepted Accounting Principles (GAAP) by revising Public Accounts reporting to reflect new Public Sector Accounting Board (PSAB) standards - the accounting guidelines for governments in Canada. In addition, effectively communicate emerging PSAB-related issues to stakeholders and interest groups, and improve other financial reports, such as the *Estimates* and quarterly forecasts.

5. Commence the consolidation of existing accounts receivable systems throughout government into one corporate Accounts Receivable (AR) by moving all or most of the AR accounts into SAP-AR. A corporate system will provide for improved data management, reporting and analysis functions, and the enhancement of internal controls, including relevant policies and procedures.

Strategic Goal No. 3: *Develop the province's position and strategy to promote an equitable and adequate share of resources relative to federal/provincial funding arrangements.*

6. Effectively analyse, provide advice to government and represent the province's position on key federal/provincial funding agreements. This will involve closely monitoring and contributing to the work of the Federal/Provincial Equalisation Plan and studying the allocation and future growth of the Equalisation transfer program to provinces. Similar work will be involved in monitoring and contributing to the work of the Council of the Federation Panel, studying the existence, implications and solutions to the issue of Fiscal Imbalance between the Federal government and the provinces. In addition, the province will continue to focus its efforts on the need for adequate Federal funding for the Canada Social Transfer (CST) for Post Secondary Education and Social Assistance.

7. Work with the Federal government and other provinces to address issues that arise with respect to our Federal-Provincial Tax Agreements respecting Income Taxes, the Harmonized Sales Tax, as well as Reciprocal Taxation Agreements.

8. Work with Inter-governmental Affairs and other relevant partners to strategically identify

the key inter-governmental funding priorities for government, and promote a coordinated, corporate approach to federal/provincial negotiations and agreements.

Strategic Goal #4: *Continue to enhance the department's strategic focus overall, with immediate concentration on effective risk management and workforce strategies (development of our people).*

9. Implement the audit recommendations of the Deloitte report by establishing a Middle Office function that will provide an ongoing auditing and compliance service for treasury services, investments and capital markets, enhanced governance and a more complete segregation of duties for transactions. Implement risk management strategies that include the development and implementation of business continuity plans and formalised policies and standards to strengthen internal management controls within the relevant divisions.

10. Implement joint trusteeship for the Teachers' Pension Plan in consultation with the NSTU, and continue discussions with stakeholders regarding the Public Service Superannuation Plan with a view to exploring changes in plan governance and securing improvements in plan funding.

11. Implement a revised governance and organisational structure for Internal Audit that will reflect a corporate business approach and will provide the required assurance for accountability and good internal management.

12. Introduce a series of Human Resource strategies to enhance employee career planning and development, support a department-wide approach to succession management and encourage diversity.

13. Enhance the department's OH&S efforts by broadening its focus to include wellness issues and to ensure departmental employees are kept informed of activities and progress on a regular basis.

Budget Context

Budget Context Chart, 2005-2006			
		Estimated Budget Expenditures	
	2004-2005 Estimate	**2004-2005 Forecast**	**2005-2006 Estimate**
	Per 2004-2005 Estimates	Per 2005-2006 Estimates	Per 2005-2006 Estimates
	$ Thousands	$ Thousands	$ Thousands
Total Program Expenses - Gross Current	28,530.0	31,031.0	34,759.0
Net Program Expenses - Net of Recoveries	14,134.0	12,975.0	16,858.0
Tangible Capital Assets (TCA)	6,759.3	5,690.4	4,700.0
Salaries and Benefits - Gross	13,838.0	13,983.0	15,575.0
Funded Staff (FTEs) Gross	233.1	223.7	252.6
Funded Staff (FTEs) Net	153.1	137.7	161.6

Performance Measures

The Department of Finance's outcomes and performance measures are consistent with last years's Business Plan. We have added two new measures that address the key areas of risk management and career/succession planning. In addition, the department has reviewed and revised relevant targets, as required by Treasury and Policy Board's *Guidelines for Business Planning, 2005-2006*. Finally, strategic actions have been revised to assist in the achievement of new targets.

Core Business Area: Financial Management				
OUTCOME	**MEASURE**	**DATA**	**TARGET**	**STRATEGIC ACTIONS to achieve target**
Effective management of the province's financial operating resources	surplus/deficit budget	- 2003-04: surplus of $42.6 million - 2002-03: surplus of $31.6 million	meet legislated requirements for balanced budget [and Debt Retirement Fund}	- Work closely with TPB re: expenditure control and continue to update and improve fiscal models to improve in-house revenue forecasting.
Open and transparent financial reporting	- timeliness of Public Accounts documentation - unqualified audit report	consolidated financial statements released September 30, 2004	release date: on or before Sept 30th	- Develop procedures to expedite and improve production of Public Accounts and forecasts. - Implement changes to Public Accounts documents to reflect new PSAB guidelines for financial statement discussion and analysis - Implement communications strategy to effectively communication/educate stakeholders about GAAP and PSAB, particularly when new accounting policies are adopted.

Core Business Area: Investment and Treasury Management				
OUTCOME	**MEASURE**	**DATA**	**TARGET**	**STRATEGIC ACTIONS to achieve target**
Efficient and prudent management of the province's financial assets and liabilities	net debt service costs (expressed as a percentage of net debt outstanding)	2003-04: 6.6% 2002-03: 6.7%[1] 2001-02: 8.1% [1] *7.2% in 2004-2005 BP; restated for GAAP compliance in 2003-2004 Accountability Report.*	comparable to other provinces	- Strive for a desired result within an acceptable level of risk.
	percentage of foreign debt in debt portfolio	Mar. 31, 2004: 16.9% Mar. 31, 2003: 18.1% Mar. 31, 2002: 28.9% Mar, 31, 1995: 72.2%	20% or less	- Continue to re-finance maturing debt in net Canadian dollar exposure.
	credit ratings of major rating agencies (DBRS, S&P and Moody's)	August, 2004: - DBRS: A(low), with stable outlook (no change) - S&P: A (up from A-) - Moody's: A2 (up from A3)	improved or sustained credit rating	- Make strong presentations to rating agencies on a regular basis that highlights our financial position.

Core Business Area: Investment and Treasury Management				
OUTCOME	**MEASURE**	**DATA**	**TARGET**	**STRATEGIC ACTIONS to achieve target**
Effective management of the assets of provincial pension plans	funded status of the Public Service Superannuation (PSS) and Teacher's Pension Plan (TPP) funds	PSS: 85.8% (Dec. 31/03)* 82.1% (Dec. 31/02) TPP: 81.0% (Dec.31/03)** 76.8% (Dec.31/02) *Data released: May/04 **Data released: April/04	PSS: Dec 31/05 - 87% Dec 31/06 - 88% Dec 31/07 - 89% TPP: Dec 31/05 - 86% Dec 31/06 - 87% Dec 31/07 - 88%	- Continue to manage pension funds to maximize rate of return within an acceptable level of risk. - Generate a 4.25 % real rate of return annually. - Complete discussions with stakeholders about governance and funding to effect improvements in the long-term financial health of the pension plans.

Core Business Area: Fiscal Planning and Policy				
OUTCOME	**MEASURE**	**DATA**	**TARGET**	**STRATEGIC ACTIONS to achieve target**
Prudent and sustainable fiscal plan	provincial government debt as a percentage of GDP *(restated ratios as of April 2004)*	2003-04: 42.8% 2002-03: 45.1% 2001-02 46.6%	continue downward trend	- Work closely with TPB on expenditure control.
Positive climate for investment/economic growth	overall personal income, corporate income and capital tax rates	- marginal personal income tax rates:* 2003-04, 2002-03 L: 8.79%, 9.77% M: 14.95%, 14.95% H: 16.67%, 16.67% H+: 17.25% - corporate rates: 2003-04, 2002-03 gen: 16%, 16% sm. bus: 5%, 5% capital tax (large corp) 0.30%, 0.25% *L=Low, M=Middle, H=High		- Review tax initiatives for financial implications to the province and continue to explore alternatives to the current tax structure. - Continue to monitor the overall tax burden.

Core Business Area: Central Agency Services				
OUTCOME	**MEASURE**	**DATA**	**TARGET**	**STRATEGIC ACTIONS to achieve target**
More informed program delivery and policy development	Number of downloads from Economics and Statistics Division web sites	2004: 346,000 2003: 256,000 2002: 167,000	upward trend	Enhance internet and intranet sites. Provide effective, timely and analytical support for projects and policy initiatives to support provincial strategies ((e.g., energy and economic growth).
Enhanced financial accountability	proportion of DHAs with financial systems in place to **monitor third-party spending**	data to be collected once implementation is underway (beginning in 05-06)	target year: 2007-08; target proportion: to be defined as implementation plan is further developed	Review options for financial and human resource management information systems in DHAs and identify a plan for future implementation.

Core Business: Central Agency Services				
OUTCOME	**MEASURE**	**DATA**	**TARGET**	**STRATEGIC ACTIONS to achieve target**
Enhanced financial accountability	proportion of MASH sector (municipalities, academia, schools, hospitals) with systems in place to enhance **service delivery** (modules include: HR, Procurement, Business Warehouse, Tax-&-Utilities)	Completion to date: - all 7 school boards (financials, procurement, business warehouse) - 6 municipalities (financials, procurement)	100% of depts/ agencies (HR and Payroll) by Apr/05 100% of school boards (HR and Payroll) by Nov/05	Finalise implementation of e-Merge (human resource and payroll modules) of SAP enterprise resource planning system within government departments and agencies. Continue to implement the SAP Utilities and Tax Module (CCS) in the Municipal Sector.

Strategic Goal #4: Continue to enhance the department's strategic focus overall, with immediate concentration on effective risk management and workforce strategies (development of our people).				
OUTCOME	**MEASURE**	**DATA**	**TARGET**	**STRATEGIC ACTIONS to achieve target**
strategic management	proportion of staff participating in career development/succession management training programs	training currently in process; data to be compiled in 05-06	target year: 2005-06 performance target: 20% of staff with career development plans	-Introduce a series of Human Resource strategies to enhance employee career planning and development support a department-wide approach to succession management. - Follow-up on key findings of recent PSC employee survey by addressing the key areas of concern expressed by Finance employees (e.g., health and wellness, job security and communications).
enhanced risk management program	year 1 (05-06): Deloitte audit response on schedule *year 2 (06-07) program-relevant performance measure to be developed*	implementation: project in process and continuing into 05-06 *performance data to be collected once program is operational*	target project completion: 05-06 *performance target to be determined in year 2*	- Advisory committee reviews progress and defines strategic actions to be taken to ensure project's success. - Program structure implemented through the hiring of Director of Compliance and Reporting for new Middle Office function. - Develop and/or revise relevant policies and procedures, as well as Terms of Reference documentation for Debt Management and Investment Advisory Committees..